

Message Text

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TO AMEMBASSY BOGOTA IMMEDIATE

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EXDIS - TOSEC 155 - ZFF BOGOTA ONLY

E. O. 11652: GDS

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TAGS: ENRG: LY

SUBJECT: OIL COMPANY OFFICIALS MEETING WITH DEPUTY SECRE-
TARY

1. SUMMARY: OIL COMPANY OFFICIALS INFORMED ACTING SECRE-

TARY RUSH MAY 16 THAT THEY MOVING TO CRUCIAL POINT IN PARTICIPATION NEGOTIATIONS WITH LARG AND THAT CONFRONTATION QUITE POSSIBLE IN COMING PERIOD. THEY NOTED THEIR CONCERN THAT ARAB- ISRAELI SITUATION HAVING INCREASING IMPACT ON OIL SITUATION AND THAT OIL SUPPLIES LIKELY TO BE MUCH MORE POLITICIZED IN FUTURE.

2. ACTING SECRETARY RUSH MET WITH CHIEF EXECUTIVES OF 13 AMERICAN OIL COMPANIES OPERATING IN LIBYA MAY 16 TO DISCUSS CURRENT NEGOTIATING SITUATION IN LIBYA, ITS POSSIBLE REPERCUSSIONS IN PERSIAN GULF, AND FOR REVIEW OF MIDDLE EAST (ARAB- ISRAEL) SITUATION AND ITS EFFECT ON OIL RELATIONSHIPS. JAMIESON OF EXXON SERVED AS SPOKESMAN FOR INDUSTRY GROUP. DEPARTMENT PARTICIPANTS INCLUDED UNDER SECRETARY PORTER AND ASSISTANT SECRETARIES ARMSTRONG, NEWSOM, SISCO. WHITE HOUSE AND JUSTICE ALSO REPRESENTED.

3. AT INVITATION ACTING SECRETARY, JAMIESON REVIEWED CURRENT STATUS OF COMPANY NEGOTIATIONS WITH LARG ON LATTER'S DEMAND FOR 100 PERCENT OWNERSHIP AND CONTROL WITH COMPENSATION BASED ON NET BOOK VALUE, WHICH HE CHARACTERIZED AS " NATIONALIZION". JAMIESON SAID COMPANIES HAD DECIDED IN MEETING MAY 14 TO SUBMIT PROPOSAL TO LARG WHICH WAS SIMILAR TO IRANIAN ARRANGEMENTS NOW BEING NEGOTIATED. (WE UNDERSTAND PROPOSAL TO LIBYA CALLS FOR FORMATION OF JOINT OPERATING COMPANIES, WITH PRESENT CONCESSIONAIRES MAINTAINING STATUS AS SERVICE CONTRACTORS AND PREFERENTIAL PURCHASERS OF MAJOR SHARE OF OIL; PURCHASES TO BE MADE FOR " FEE" WHICH WOULD INCLUDE SUBSTANTIAL SUM FOR EXPLORATION INVESTMENTS IN NEW AREAS). JAMIESON SAID GROUP OF COMPANIES FELT THEIR PROPOSAL WOULD BE COMPATIBLE WITH AGREEMENTS NOW BEING NEGOTIATED IN NIGERIA AND PERSIAN GULF, AND WOULD AVOID DANGER OF ESCALATING OR LEAPFROGGING DEMANDS FROM PERSIAN GULF PRODUCERS. HE DID NOT KNOW WHETHER IT WOULD BE CONFIDENTIAL

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SUCCESSFUL WITH LARG. HE NOTED THAT OASIS GROUP, WHICH SCHEDULED TO ANSWER LARG MAY 17, HAD COMMITTED ITSELF ONLY TO MAKE " BEST EFFORT" TO SELL THIS PROPOSAL TO LARG, BUT WAS RESERVING ITS POSITION IN EVENT PROPOSAL FAILED. JAMIESON SAID COMPANIES WERE FACING SITUATION IN WHICH THEY MIGHT HAVE THEIR INTERESTS CONFISCATED.

4. HE SAID THAT USG COULD ASSIST COMPANIES IN THIS CIRCUMSTANCE IN NUMBER OF WAYS: (A) BY INITIATING DISCUSSIONS WITH OTHER CONSUMER GOVERNMENTS REQUESTING THAT THEY PARTICIPATE IN EMBARGOING OIL THAT COMES FROM CONCESSIONS EXPROPRIATED BY LARG, (B) BY

ASKING OTHER GOVERNMENTS TO DISCOURAGE THEIR NATIONALS FROM PROVIDING TECHNICAL SERVICES TO LARG IN EVENT OF EXPROPRIATION, (C) BY ASKING " MORE MODERATE AND RESPONSIBLE" OPEC GOVERNMENTS NOT TO SUPPORT LARG IN ITS NATIONALIZATION ACTION, AND (D) BY SEEKING NOW TO REDUCE U. S. AIR- POLLUTION (SULFUR) REQUIREMENTS WHICH MADE LIBYAN OIL SO DESIRABLE AND GAVE LARG IMPORTANT ELEMENT OF LEVERAGE.

5. IN GENERAL DISCUSSION ON LIBYAN SITUATION WHICH FOLLOWED, NUMBER OF POINTS EMERGED. ALL OIL COMPANY OFFICIALS, FROM MAJORS AND INDEPENDENTS ALIKE, CONVINCED THAT DEAL ALONG LINES DEMANDED BY LIBYANS WOULD UPSET IRANIAN AND " PARTICIPATION" AGREEMENTS, WITH POSSIBILITIES FOR WHOLE NEW CYCLE OF DEMANDS FROM PRODUCERS INCLUDING, ONCE AGAIN, LARG. PRESSURES FOR THIS CYCLE OF DEMANDS ESSENTIALLY ECONOMIC, THEY AGREED, ALTHOUGH ELEMENTS OF POLITICAL PRESSURE INCREASINGLY INCLUDED (E. G. INCREASING THREATS TO USE OIL AS WEAPON IN MIDDLE EAST CONFLICT, LIBYAN POPULAR COMMITTEES, ETC.) LIBYAN LEVERAGE, COMPANIES AGREED ON SECRETARY' S

QUESTIONING, BASED ON LOCATION AND QUALITY ADVANTAGE THEIR OIL, AS WELL AS SULFUR RESTRICTIONS IN MAJOR CONSUMING COUNTRIES. THIS LEVERAGE IS INCREASED BY PRESENT OVERALL VERY TIGHT CRUDE SUPPLY SITUATION. JAMIESON SAID EXCESS PRODUCTIVE CAPACITY WORLD- WIDE
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NOT MUCH MORE THAN 1.5-2 MILLION B/ D, I. E., COMPANIES WOULD HAVE DIFFICULT TIME MEETING SHORTFALL IF TOTAL OR VERY SUBSTANTIAL SHUTDOWN OF LIBYAN PRODUCTION OCCURRED.

6. IN RESPONSE ACTING SECRETARY' S QUESTION ON IMPORTANCE OF SHARING AGREEMENT IN MAINTAINING COMMON FRONT OF COMPANIES, MCLEAN OF CONTINENTAL SAID IT USEFUL ELEMENT OF COMPANIES' POSITION, BUT POINTED OUT THAT INDEPENDENTS HAD DIVERGENT ECONOMIC INTERESTS FROM MAJORS WITH PERSIAN GULF HOLDINGS. COMPANY OFFICIALS SAID THAT OTHER NATIONALITY COMPANIES (ESPECIALLY FRENCH, ITALIAN, PERHAPS EVEN JAPANESE) WOULD BE EAGER TO SECURE ACCESS TO OIL IF LIBYANS NATIONALIZED, AS IN FACT WOULD MANY FROM THE U. S. IN RESPONSE TO SECRETARY' S QUESTION, COMPANY OFFICIALS SAID BRAZILIANS, GREEKS, EAST EUROPEANS CERTAINLY WOULD AND ALL EUROPEANS PROBABLY WOULD EVENTUALLY SEEK TO OBTAIN ACCESS TO LIBYAN OIL IF IT NATIONALIZED. ALL GOVERNMENTS WERE VERY WORRIED OVER OBTAINING SUFFICIENT SUPPLIES OF OIL, MUCH MORE THAN THEY WERE ABOUT PRICE.

7. SECRETARY RUSH SAID, IN RESPONSE TO JAMIESON' S
POINTS FOR USG HELP, THAT USG WAS REGULARLY AND
CLOSELY IN CONTACT WITH OTHER CONSUMER GOVERNMENTS.
HE NOTED THAT SOME OF THESE CONSUMER GOVERNMENTS
WERE SUSPICIOUS OF U. S. COMPANIES AND AFRAID THEIR
ACTIONS WOULD ENDANGER STABILITY OF SUPPLIES.
DEPUTY ASSISTANT SECRETARY KATZ NOTED THAT USG WOULD
AT THE OECD OIL COMMITTEE MEETINGS NEXT MONTH ATTEMPT
REASSURE THESE OTHER CONSUMERS THAT WE NOT ENGAGED
IN PRECLUSIVE ATTEMPTS TO ASSURE OWN SUPPLIES.
ACTING SECRETARY RUSH NOTED WIDE RANGE OF DIFFERING
VIEWS AND APPROACHES IN ECONOMIC FIELD WE HA

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